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ABSTRACT

The Alabama Education Study Commission conducted a five-year project to find adequate measures of accountability for schools. The result, developed, implemented, and tested in 11 school districts in Alabama, was a Program Management and Budgeting (PMB) system combining elements of zero-base budgeting and management by objectives. PMB has the capability to identify program resources, set program objectives, measure program effectiveness, and provide the public with accurate and timely information about their schools. Two major problems discovered in similar systems developed in other states were overcome. Identifying program structure accurately before developing the chart of accounts solved the first, while the management tool aspect of PMB resolved the second, lack of communication between fiscal and program personnel. Direct benefits of the PMB system included improved efficiency and effectiveness through greater control and more informed decision-making. Citizen participation and public credibility and trust also increased. The refusal of the Alabama Department of Education to permit fiscal reporting in a program budgeting format needs to be reversed and all school systems in the state need to use PMB if the new system is to bear full fruit. A formal pilot program evaluation is provided as an appendix. (Author/PGD)

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ACCOUNTABILITY IN ALABAMA SCHOOLS

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ALABAMA EDUCATION STUDY COMMISSION

MONTGOMERY, ALABAMA

MARCH, 1978

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REPORT 24

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Foreword

Education is a complex and expensive business in Alabama. Because of its complexity many efforts to determine cost effectiveness have ended in frustration. The Alabama Education Study Commission examined the challenge of fiscal accountability for education over five years ago and agreed to meet each frustration head-on and get to its source. Shortly after the Commission began to accumulate data on fiscal accountability it became apparent that program accountability had to be considered also. This report outlines a brief history of the Commission's efforts to develop a model of accountability for schools in Alabama. Also, included is an evaluation of a three-year pilot study to develop and test the model on eleven school systems in Alabama.

The major accomplishment of this five-year effort is a system of program management and budgeting which was developed at the local school level and applied systemwide. Unlike prior models which were developed from the "top" downward, the Commission's approach is tailor-made for local school systems in Alabama. The business and industrial techniques for cost effectiveness which can apply to education are incorporated into this system.

The program management and budgeting system described in this report has not received enthusiastic response from some school administrators at the state level, primarily because it is a management tool for helping local administrators become more effective. It generates different kinds of data for reporting purposes, not just of a fiscal nature, but data which can be used to evaluate school programs from reading to transportation. It has, however, received enthusiastic support from those local school administrators and board members who have tried it in their systems.

This report is presented to the Alabama State Legislature as a model of how accountability can be achieved when every constituent group affected by education at the local level is involved in program development and budgeting. The Commission commends PMB to the schools in Alabama with a commitment to assist in its implementation and further evaluation.

Joe M. Dawkins
Executive Secretary

Highlights

1. The Alabama Education Study Commission has developed and tested a model of accountability for local school systems in Alabama.

2. The model is a program management and budgeting system designed to meet public demands for accurate data about their schools and cost effectiveness.

3. The Commission recommends that the local school systems which are ready to convert to program budgeting be allowed to do so by the State Department of Education.

4. The Commission recommends that all school systems convert to program budgeting within a five-year period.

Accountability in Alabama Schools

The Alabama Education Study Commission has focused much of its research energy and resources on trying to find measures of accountability for schools in Alabama for the past five years. The major thrust toward this goal was to develop a systematic process for budgeting and managing local school resources so that results can be measured. With support from the State Legislature and voluntary cooperation of eleven local school systems a three-year pilot study was initiated to develop, implement and test an accountability model. This study followed a year of planning in which the application of management and budgeting procedures used by business and industry were studied.

The Commission developed program management and budgeting for local school systems by using a combination of zero-based budgeting and management by objectives - two useful business oriented structures for allocating resources to obtain the greatest benefits. As the program management and budgeting system developed, some problems arose when business techniques were applied to school systems. The most critical problems were resolved and a final evaluation of the three-year project was presented to the Education Study Commission in June, 1977. It was subsequently circulated among schools, colleges, universities, school boards and various educational and business groups for comment and feedback, (Appendix I). The evaluation concluded that:

> Based on the three-year EPMBS (PMB) pilot project . . . program management and budgeting can become an effective alternative financial system for local school systems in Alabama. Not only does this system help school personnel make better decisions, it helps taxpayers know where their tax dollars for education are going. This project has shown that school personnel can meet public demands for accountability and cost effectiveness.

Following the final evaluation of the pilot study the Study Commission published a manual for local school systems to use in converting to program

management and budgeting. This manual needed a trial run, so five of the eleven original pilot school systems volunteered to convert their total program and fiscal operations from the traditional line-item approach to program budgeting. During the three-year study the pilot systems had, in effect, kept two sets of books - one for program budgeting and one to satisfy State Department of Education reporting formats. Because of the influence of State Department of Education reporting requirements on local school system fiscal operation, three representatives from the division of administration and finance and the research and evaluation divisions served on the coordinating council of the pilot study.

In an effort to facilitate the testing of program management and budgeting the State Department of Education was requested to examined the PMB manual and determine if State Department reporting requirements could be met by the formats contained therein. Anticipating no objections to changing formats, the Commission made a formal request that the State Department of Education accept fiscal reports from the five volunteer school systems which elected to convert to program management and budgeting. The five systems did not receive formal approval from the State Department of Education to change to program formats for fiscal reporting. These systems subsequently developed program budgets for the 1977-78 school year and are now operating under two fiscal systems, one for their own program accountability and the other for reporting to the State Department of Education.

A point of decision has been reached. It is time to decide whether local school systems can be allowed or even encouraged to develop a fiscal budgeting and accounting system which is sensitive to program accountability or continue the line-item approach.

The Commission has accumulated the data which overwhelmingly supports the need for change to the PMB system. These data are extensive but they are summarized at the end of this report in a complete evaluation of the PMB project.

The PMB project has overcome the two major problems discovered in other states which have experimented with a similar approach to school operation and management.

First, some of the pioneer efforts in program budgeting began with a revised chart of accounts developed by an external accounting firm which had little understanding of the relationship between school fiscal operations and program activities. The chart of accounts worked in some school systems and not in others. The Alabama approach started with an intensive analysis of a cross-section of school systems and their fiscal problems. THE CHART OF ACCOUNTS FOR PMB WAS DEVELOPED ONLY AFTER A PROGRAM STRUCTURE WAS DEVISED. THERE ARE STILL SOME WHO WILL APPROACH PROGRAM BUDGETING BY STARTING WITH A CHART OF ACCOUNTS. THIS WILL NOT WORK FOR LOCAL SCHOOL SYSTEMS. A major part of the chart of accounts problems involved developing a reporting system which reflects not only the fiscal data but program data as well. The reports should meet all local, state and federal data needs; therefore, PMB has effectively merged the federal and state guidelines for reporting within local school system needs. Handbook II (Financing Accounting, Classification and Standard Terminology for Local and State School Systems, 1973, revised) was used as a guide for federal requirements. The various reports required by the State Department of Education were consulted for state guidelines in addition to the Alabama Examiners of Public Accounts.

The second major problem overcome by the PMB project was the lack of communication between fiscal and program personnel. PMB is not a fiscal system to be operated by a bookkeeper. It requires involvement of all personnel in the school system and establishing lines of communication for effective management.

The Program Management and Budgeting system developed by the Commission for local school systems in Alabama can best be described as an effective management tool for increasing efficiency and effectiveness in local school operation. The

process begins with identifying where all funds are being spent by programs. Each program (math, science, vocational, transportation, etc.) is described in terms of outcomes expected, activities involved and costs (personnel, supplies and equipment). Under current accounting and budgeting procedures a local school system cannot tell how much it costs to teach science in grades 1-12, for example. Since a local school system cannot determine the cost of a science program there can be no statewide assessment of science programs. The type of line-item accounting being used presently by the State provides a breakdown of school system budgets by personnel costs, administration, transportation, etc. instead of identifying which programs to which resources are allocated.

Under program management and budgeting all activities in a school system are classified into component parts (programs) which can be measured, controlled and budgeted, such as math, science, arts, social studies, etc. A school principal can determine how much it costs to have teachers supervise study halls or whether the reading program has adequate personnel assigned to it. School board members can receive monthly reports on dollar-by-dollar expenditures by program. When questions are raised about the adequacy of resources to start new programs or continue old ones there can be a cost-benefit analysis made to determine if the money allocated will bring the desired results. Program budgeting is a management tool designed to help local school administrators make more informed decisions. It can work equally as well for administrators at the State level.

The direct benefits of PMB can be determined in terms of how much better the schools can be managed; however, the indirect benefits can be seen in the increased participation of citizens in the budgeting process. Also, credibility and trust levels increase as the public receives clear, understandable, financial data from its schools.

Recommendations

The Program Management and Budgeting System was developed for use by local school systems in Alabama. Although it was not designed as a reporting device for the State Department of Education it has greater potential for providing vital data about school system management and operation than the combination of devices now being used. The Alabama Education Study Commission recommends that all Alabama school systems begin to move with all deliberate speed toward developing and implementing the program management and budgeting systems designed and tested by the Commission. There are two steps necessary for this recommendation to be implemented.

1. Most school systems in Alabama develop and generate only those data required by State, Federal and local authorities and agencies. A result of this situation is that hundreds of forms are completed for a multitude of departments and divisions of State government. Because fiscal data must be reported on a line-item format the local school system has little incentive for tying its budget to its programs. It is recommended that the State Board of Education allow local school systems to submit fiscal reports on a program format.

2. There is no unified statewide system for determining how education dollars are spent in terms of programs. In order to know how much is spent for reading instruction, or science, or math, in each school system there should be a unified coding structure tied directly to expenditure of funds. Therefore, it is recommended that the State Legislature, the State Department of Education and the Alabama Education Study Commission jointly establish a five-year plan for assisting every school system in Alabama to convert to Program Management and Budgeting. Many systems can convert to program budgeting in a few months; however, there are many systems where training and orientation would take longer periods of time. Also, since PMB requires direct involvement of school board members, teachers and patrons who may have limited experience in budgeting, some initial training will be necessary. A suggested outline of a five-year plan is presented below:

   First Year - Orientation, Organization and Training
   Conferences and workshops should be set up to orient local school board members, superintendents and central office staffs to the new system. The State Department of Education would need a team of counselors to begin the training of principals and bookkeepers. These counselors would be both fiscal and program oriented.

Second Year - Cost Analysis and Conversion of Bookkeeping
All school systems would conduct a cost identification survey and convert fiscal procedures to a program format and structure. Objectives and descriptions of every program in the school system would be completed.

Third Year - Trial Budget and Program Format
Each school system would develop a trial budget on a program format and submit its request for funds to the State Department of Education for the fourth year of operation.

Fourth Year - Implementation of Trial Budget
Each school system would abandon the line-item budget and operate on its program budget. Monitoring of this process would continue by the State Department of Education's team of counselors. A budget for the fifth year would be developed.

Fifth Year - Evaluation and Assessment
School systems would continue to operate on program budgets, but extensive effort to evaluate their progress will be made. Those systems which develop difficulties in operating under program budgeting would receive special assistance from the State Department of Education.

It is estimated that the cost for conversion to program budgeting would be minimal. Additional funds may be needed to improve the efficiency of local school central office personnel through training. Also, some additional cost may be required to convert the varying forms of data processing now being used in local school systems to a unified system; however, the savings after conversion may offset the initial cost. Many local systems now using computers are operating at low efficiency levels with minimum benefits. In summary, the cost savings realized from a unified data system would offset the cost of converting to program budgeting.

The Alabama Education Study Commission has attempted to find an accountability system for schools in Alabama. Program Management and Budgeting seems to be the solution. It has the capability to identify the resources that go into a program, set the program's objectives, measure its effectiveness and provide the public with accurate and timely information about it. By examining all the factors which

affect the effective operations of a school program then procedures can be set up to account for the results of the program.

Appended to this report is a copy of the final evaluation of the three-year pilot study on program budgeting. Further details of PMB are included in a manual available from the Commission office.

APPENDIX I

EDUCATION PROGRAM MANAGEMENT BUDGET SYSTEM-PMB

Pilot Project
Final Evaluation

Introduction

The Alabama Education Study Commission conducted a project to achieve educational excellence in Alabama from January, 1972 to April, 1973 during which data were collected from each of the State's school systems. One of the seventeen findings of that study is as follows:

> Budget development in local school systems reflects a variety of approaches few providing structures for program accountability. It is difficult to determine the cost of specific programs and subsequent benefits. There are no means at present by which fiscal accountability can be related to program accountability. Purchasing and fiscal accounting procedures within local school systems are too diverse to allow for cost/benefit analyses.
>
> A task force shall be organized by the Commission to study ways of developing budgeting procedures and structures in local school systems that will provide adequate information on the costs and benefits of various school programs. This task force shall provide assistance to the local school boards and advisory committees on budgeting, finance and facilities. A review of local accounting and purchasing procedures may lead to some standardization. (AESC Report #13, April, 1973)

Six months after this recommendation was made the Commission authorized the development of a three-year pilot project which would test the feasibility of a unified system for connecting the program and fiscal components of local school systems. After careful study of several alternatives it was decided that a program budgeting system had the most promise for improving school system management and operation in Alabama.

(Appendix I Continued)

Pilot Project

The pilot project was initiated in the Spring of 1974 with two major objectives:

1. To develop a program management budget system for local school systems in Alabama
2. To implement the budget system in a sample of local school systems to test its feasibility

The project would run for three years beginning with the 1974-75 school year and ending with the 1976-77 school year. Eleven volunteer school systems representing a wide range of geographic locations and sizes were selected as pilot systems.

During the first year of the project the pilot systems were analyzed in terms of budget structure, organization, management, fiscal accounting, instructional and support programs and revenues. A program budget manual was produced by the Commission as a guide for the pilot systems. A task force (EPMBS coordinating Council) was organized to plan and evaluate the pilot year. The council was made up of two liaison representatives of the State Department of Education, five consultants from non-pilot school systems and State Universities, and three Commission staff members.

The second year of the project was the pilot year to test the feasibility of the program structure -- a classification system for identifying expenditure of funds by programs. An interim report of the results of the pilot year revealed:

1. The program structure developed by the Commission was workable in local school systems.
2. Preliminary cost identification by programs had the unexpected effect of saving money during the year.

3. A certain type of decentralized management style is necessary for effective program budgeting.
4. Program budgeting was proving to be a promising approach to improving schools although several problems had not been resolved.

Several other findings relevant to the project's operational procedures are listed in a more detailed interim report to the Commission (May, 1976).

The Third Year

The Coordinating Council reviewed the results of the pilot-test year with representatives of each of the pilot school systems. A work plan including eighteen specific tasks for the EPMBS pilot systems to accomplish was devised. Members of the council were assigned tasks to monitor in each of the systems during the year. Although the pilot-test (second) year had started later than anticipated it was decided that lost ground could be regained during the third year with adequate support from the Commission.

The pilot systems were expected to:

1) establish goals and objectives for at least two instructional and two support programs
2) convert from line-item to program budgeting
3) form a management team to monitor the project
4) evaluate the program budget process
5) document all programs in operation

During the year many on-site visits were made by members of the Coordinating Council to assist systems to develop program budget procedures and formats. Each of those visits is documented in the Commission files. Frequent reviews of progress were made by the council and by local system coordinators. These reviews revealed that many of the promising features of

(Appendix I Continued)

program budgeting could be jeopardized by various unrelated and unanticipated factors. Some of these factors are:

- Misunderstandings and misinterpretations of the intent of program budgeting
- Inability of some leaders to communicate the whole picture of program budgeting to local school personnel
- The political impacts of implementing change

Fortunately, most of the problems which arose from these factors were resolved in short order. The third year was completed in May, 1977 and each pilot school system evaluated the results of EPMBS.

Results

It was determined at the beginning of the pilot project that program management budgeting would not require school systems to add other dimensions to their operation. It would provide schools with effective tools for performing certain functions better which are already part of the ongoing operation. The four components of the EPMBS are already part of any school system. 1) All school systems operate under goals, either implicit or explicit. 2) They also have to make budgets and develop accounting procedures. 3) There are management techniques and styles in operation. 4) Someone evaluates what the school system is doing, whether it is informal feedback from parents or a formalized advisory committee.

The evaluation procedure of EPMBS requested that each pilot system determine the effectiveness of EPMBS in the four components of system operation. An instrument was devised and sent to the local EPMBS coordinator in each pilot school system.

(Appendix I Continued)

The ten pilot system coordinators who responded to the evaluation instrument gave the following ratings (Showing number of systems which rated the program):

Area of Operation	Very Effective 5	4	Effective 3	2	Ineffective 1	N/A
Setting Goals and Objectives:	0	5	4	1	0	1
Budgeting and Accounting:	1	4	6	0	0	
Management Procedures:	1	3	6	1	0	
Making Decisions About:						
Instruction	2	1	7	0	0	1
Support	0	4	6	0	0	1

It seems that for the pilot systems, program budgeting procedures were rated slightly better than effective in helping them to operate and function better. Two of the pilot systems were unable to meet minimal guidelines and expectations of the project, but the coordinators expressed optimism that program budgeting had some promise for them in the future.

As further evidence of effectiveness the local systems were asked to document any program changes which took place as a result of data produced by EPMBS. The changes are listed below:

1. Reading time was doubled in elementary school and reading as a subject was added to the curriculum in grades six and seven.
2. Budgets were developed for the first time based on identifiable program needs.
3. Study halls were discontinued.

(Appendix I Continued)

4. Instructional programs were made more realistic and sequential.
5. Information received from EPMBS has not been used yet but it does show needed changes.
6. Management by objectives has been initiated.
7. The reading program in elementary grades was evaluated and adjusted to childrens' needs.
8. Instructional and budget planning are now being done.
9. More reading instructional time is being added at the middle school level.
10. Out-of-school credit and criterion referenced testing have been implemented.
11. There is more emphasis on language arts in all schools.
12. More efficient procedures are being used for scheduling and purchasing.
13. Changes were made in the elementary social studies program.

One pilot system indicated no changes in programs had been implemented at this point.

The pilot systems were asked to list the disadvantages of EPMBS. Most of the disadvantages cited were due to the fact that two sets of accounts had to be maintained during the pilot program, one for the line-item reports required by the State Department of Education and one for the Commission. Other than this constraint only five systems listed disadvantages:

1. It is difficult for personnel who are responsible for instructional programs to understand the budgeting process and the relationship of planning to program outcomes.
2. EPMBS does not provide a means to coordinate all program components so that the relationship between programs and goals can be clearly understood.

(Appendix I Continued)

3. Much more training and orientation of personnel is required for initial implementation than was anticipated.
4. Objectives in the support programs are difficult to evaluate.
5. It is difficult to develop long-range budget plans without having early estimates of State monies available.

Several advantages for the local school systems were listed by the local coordinators.

1. One can get a handle on the whole school system; examine curriculum guides to determine scope and sequence of a subject; look at school expenditures to see where money is being spent; look at program areas to compare cost with achievement; in short, account for tax dollars in terms of achievement and expenditures.
2. EPMBS provided a clearer picture of program cost in decision-making for instructional improvement and served as a vehicle to inform lay citizens.
3. The faculty is better informed and the community now responds more positively to the schools.
4. The data, information and experience are invaluable and present an excellent opportunity for decision-making.
5. Cost discrepancies were discovered in instructional areas and strengths and weaknesses were discovered in the programs analyzed.
6. Each program and activity can now be analyzed in terms of cost effectiveness.
7. EPMBS provides more information on which to make decisions.
8. We can now determine the time spent in each major function and the real costs.
9. More useful information is provided.
10. A systematic approach to improve instruction was developed.

(Appendix I Continued)

Only one pilot system failed to list any advantages of EPMBS primarily because it had already begun to move toward program budgeting before the pilot project began.

The pilot school systems were asked if they preferred to convert totally to program budgeting. Seven systems responded "yes", two qualified a "yes" answer and two said "no". All eleven systems gave cost estimates for converting to program budgeting. Three systems said no significant costs would be incurred. Four systems estimated over $15,000 and four estimated under $15,000 with the average conversion cost being around $12,000. Half the systems would require additional personnel for conversion and the other half would require additional funds for data processing.

Conclusions

Based on the three-year EPMBS pilot project it may be concluded that program management and budgeting can become an effective alternative financial system for local school systems in Alabama. Not only does this system help school personnel make better decisions, it helps taxpayers know where their tax dollars for education are going. This project has shown that school personnel can meet public demands for accountability and cost effectiveness.

While the program management budgeting system is an effective financial approach it has even greater potential for program improvement. By analyzing instructional and support programs in terms of objectives (expected outcomes), costs and actual outcomes (products) school personnel have access to procedures and tools for evaluating program alternatives without costly and unnecessary experimentation. The EPMBS model has a built-in potential for involving the community in school affairs at a realistic and meaningful level.

(Appendix I Continued)

The pilot school systems conclude that no major changes in administrative structure and organization are necessary to convert to program budgeting. There are, however, some conversion safeguards offered for consideration for those school systems that chose to convert to program budgeting.

1. Conversion to program budgeting may require two to five years, depending on how many characteristics of the system are already in operation. For example, a school system which has program objectives already developed may require less time than another system which has no objectives.
2. The efficiency with which a school system converts to program budgeting will depend on the effectiveness of communication and morale of personnel within the system.
3. The political impacts of program budgeting should be considered as the program is implemented. A carefully planned program of orientation and education can reduce threats to personnel who are suspicious of change.
4. EPMBS is not just a fiscal system to be turned over to the finance manager or bookkeeper. It is a total program involving every activity in the school system and it interfaces with all other groups affecting school system operation.
5. No one part of EPMBS shall be construed as the whole of the system. Centralized purchasing, instructional objectives, teacher time analysis, etc., are only parts of the whole.
6. Program budgeting will not improve the school program without some other factors coming into play such as attitudes, the basic curriculum and the expertise of personnel.

(Appendix I Continued)

7. A certain style of management is necessary for program management budgeting to operate effectively. That style includes openness, democratic leadership, shared management techniques and decentralization of authority and decision-making. It may not be necessary to change the roles of principals; however, it will require clear definitions of those roles which are accessible to the community.

The EPMBS project has shown the advantages of converting from line-item to program budgeting. These advantages accrue to school personnel, students, parents, and the taxpayer. A manual for conversion is being developed by the Commission and will be made available to all school systems in Alabama.

(Appendix I Continued)

PRODUCTS OF THE EPMBS PROJECT

1. A Program Budgeting Manual - This manual will be available for distribution by August 15, 1977. A step-by-step account of how a local school system may convert from line-item budgeting to program budgeting is included in the manual. Also, copies of forms and materials used to keep the system operational are presented.

2. A Computer Program - This program will provide a complete operational program budgeting system for school systems with data processing capability. Printouts are capable of producing adequate fiscal data to administrators and lay people regarding revenues and expenditures by programs, by schools and by fund. A program budget and a complete financial statement can be produced by this program.

3. A Data Processing Guide - This guide accompanies the computer program and describes the various capabilities of the program. Also, information describing how school systems may obtain data processing services at minimal costs are included.

4. A System for Program Improvement - This system includes procedures for describing current programs, their objectives and costs.

5. Program Format - This format provides a systematic process for classifying all activities of the school system under the two major areas of instruction and support. The coding structure is consistent with Federal and State formats so that reports can be generated easily either by computer or manually.

6. Teacher Time Allocation - This procedure provides an analytical tool for determining costs of programs as related to the amount of time actually spent in each program by personnel.

7. A Complete Accounting System - This system includes all the necessary vouchers and transmittal forms to be used for operating under a program budget. The chart of accounts and accompanying formats are compatible with Federal and State requirements.